

Rich Malaysia, Poor Malaysians?

Written by Tengku Razaleigh Hamzah
Thursday, 03 April 2014 23:18 -

I am honoured at having been invited by Encik Anas Alam Faizli to launch his book, Rich Malaysia, Poor Malaysians, a collection of essays reflecting his thoughts on energy, the economy and education of our beloved country. I applaud Anas for his intellectual discipline to pursue writing which demands mental toughness, quiet tenacity and absolute patience. Indeed, he deserves our admiration.

2. He deserves our respect given that Malaysians are notoriously apathetic to reading, let alone writing. I respectfully submit that we do not write enough, both fiction and otherwise in comparison to, say, our sprawling archipelagic neighbour to the south. It is in this context that our author deserves our commendation – my commendation in particular – for a task well done, even though the themes are serious and difficult. Well done, Anas.

3. Having skimmed through the book, I must admit that I have more than just a passing interest in it; and at least for two reasons. I am always interested in writings on the subject of energy, be they articles for lay reading or academic treatises. I feel especially close when oil and petroleum are discussed. This is because of my task previously to see through the legislation of the Petroleum Development Act, 1974 [PDA]; the negotiation of the Production Sharing Contracts with oil majors whose roles were redefined as contractors to the national oil company in the post-PDA era; and, establishing and developing Petronas into a professionally reputable and internationally respectable national oil company.

4. Secondly, having been schooled in economics, I follow its development keenly, both at the national and international levels. This is strengthened further by my having once been the Minister of Finance charged with the financial and economic management of the country. And of course, given the collective responsibility of the Cabinet, national policies on such subjects as education interest me greatly.

5. Let us reflect, for a moment, upon the situation regarding the supply and consumption of petroleum in the country and the downstream role of Petronas in the retailing of this essential and strategic product. Given our continuous inability to guide the country out of the middle income trap into the high income bracket, we have been using, for long spells, petroleum subsidization to solve the problem of its affordability by ordinary people in the lower strata of the economic chain. While the subsidising of consumer goods is not the most efficient of ways in managing the high cost of living, it is fairly understandable if the government extends a helping hand to the small man in that manner. What is sinful and cannot be forgiven is the ease with which the power that be had been dishing out subsidies to such entities as the national power

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supplier, the independent power producers and some other non-power outfits. As has been pointed out by Anas, since 1997 this subsidy has amounted to RM136.5 billion. The sad part is that while these power producers continue to enjoy subsidised fuel price, petroleum subsidy to the consumers – which purportedly cost the government RM14 billion in 2011 – was partly discontinued recently.

6. It is glaringly obvious that the government has been treating Petronas as a cash cow. Anas continues to point out that over 37 years from 1974 – 2011, the government had been paid some RM529 billion in dividends, taxes, petroleum proceeds and export duties from the national oil company. The reliance on Petronas to help outfits with strong linkages to the government out of financial trouble has been going on from as far back as 1985. In that year it rescued Bank Bumiputera with a RM2.5 billion bailout and again in 1991 when it coughed up another RM1 billion. In 1997, Petronas had to rescue the financially ailing Konsortium Perkapalan Berhad for RM2 billion. The national oil company was also made to underwrite the construction of the Twin Towers in the heart of the KL golden triangle for RM6 billion and the building of the extravagant Putrajaya for RM22 billion. In all, more than a half trillion ringgit have been spent. This amount could have been used more productively to fund a national pension programme for Malaysians as has been done by a certain Scandinavian country.

7. This extravagance that had been forced on to Petronas has also deprived the company from the much needed cash build-up for reinvestment which would ensure its business sustainability. Given the finite nature of hydrocarbon as a resource, it is important for Petronas to look further afield at investments in businesses outside of oil and gas. Looked at from this perspective, it is all the more critical for the corporation to have a strong cash reserve for reinvestment purposes. It was this need for prudence that had led Tun Razak, the Prime Minister of the day, to impress upon me the need to ensure that Petronas would enjoy parity with such multinational companies as the once much touted seven sisters, two of which ultimately became its contractors. Today Petronas is at par with the oil majors and it is ranked as one of Fortune 500's largest and most profitable oil and gas companies. But sadly, it is being abused and treated as the piggy bank whenever the government needs cash in a hurry.

8. Ladies and gentlemen, why is this so? Why is there a discrepancy between what was visualised by the founding fathers of Petronas and what it has turned out to be 40 years on; that is, as a banker of sorts to the government. The truth is that there had been consistent political interference and this had affected Petronas, even though it is a professionally well run corporation. There is a blurring of lines demarcating the party in power and government, and by extension, the party supremo and the head of government. Cynics would contend that it was done on purpose to facilitate the development of politics of patronage. This, in turn, led to the growth of crony capitalism.

9. This state of affairs is brought about by the collusion of politicians, who habitually line their pockets, and business people, who have come to be known as cronies, who are not competitive without favours. It is this cosy relationship and unholy alliance that has brought into focus the activity described by economists as rent-seeking. It is, if you will, an easy way of making money that is made possible by political connections, without having to take part in healthy, and fair open competitions. Sometimes money is made through outright corruption, poor regulation and the transfer of public assets, through privatisation exercises, at bargain prices.

10. Making fortunes in this manner seems to be fashionable now that the power-that-be has found it most profitable to issue licences, permits and contracts to their cronies. Rent-seekers have never had it so good since the mid 1980s. For instance, soaring property prices have brought fabulous riches to developers who could rely on swift approvals for projects. Some privatisation exercise have afforded opportunities for businessmen to latch on to monopolies or acquire assets cheaply. The link between politics and wealth is quite plain for us to see. For instance, many from the rank of the wealthy are members or strong supporters of the political party forming the government of the day. For the man in the street, the wish is for rent-seeking practice to be stopped as it would lead to cartels and monopolies. Rent-seeking also takes the easy and lazy way in the conduct of business where the tendency is to grab a bigger slice of the pie rather than making that pie bigger. The customer suffers in the end.

11. The entrenchment of rent-seeking and patronage system into the fabric of Malaysian life begs the question – how did this come to pass? Much as this sounds like a blame game and much as this is distasteful to swallow, the answer lies in the New Economic Policy; or rather, the NEP that had gone wrong in its implementation. Please make no mistake about the NEP; the philosophy and thought underpinning this piece of social engineering programme is just and noble. However, its implementation went haywire and wrong because of the practice of patronage that had led, in the first place, to cronyism and rent-seeking that we had just spoken about. As a result, goals set out by the policy were not met in the specified timeframe. In an effort to remedy the situation, a so-called trickle-down plan was put in train. The plan was badly thought through and represented more of a knee-jerk reaction in the desperate bid to show that the NEP was not a failure.

12. In essence, the plan called for the empowerment and enrichment of a select few who would be supported to achieve success as entrepreneurs and asset owners. The plan was supposed to have created a multiplier effect that would trickle down to benefit the community financially. The plan failed. In the words of Anas “the trickle-down effect did not and does not work ... In fact, it has perpetuated high inequality amongst Malaysians.” To my mind, the plan helped to create a fertile breeding ground for patronage which had led to cronyism and rent-seeking

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practice stated earlier. Worse, it created ethnic rivalry which is clearly manifested in the presence of parallel economic and social systems in our midst. Observe, for instance, different ethnic groups competing in the business of providing post-secondary education. The same could be said regarding the ownership of financial institutions or commercial establishments, the latter being physically represented by the mushrooming of oversized and oversupplied shopping centres.

13. This inter-ethnic dichotomy is no more than a duplication of effort which result in the inefficient application of resources. It is worsened by the economic disparity that continues to be persistently reflected along racial line, notwithstanding the efforts made to blur and wipe it out. As explained by Anas, the bottom 40 per cent of Malaysia in economic terms is still made up of bumiputera households. Transpose this against the notion that about 90 per cent of their incomes are made up of wages and salaries which are hardly commensurate with the relatively more rapid increases in living costs, this problem takes on a much darker hue. As an illustration of how low Malaysian income generally is, it is worthwhile noting that the EPF had been known to report that about 79 per cent of its contributors earn RM3,000 or less a month. This reality becomes more significant when we realise that disposable income contributes much to purchasing power, especially among the relatively poor as opposed to the wealthy where purchasing power is additionally sourced from assets other than salaries and wages. A report on the national human development goes further to say that the “Chinese has a higher purchasing power compared to other ethnic groups...” More problematic and easily a potential source of politico-economic problem is the assertion by the report that there is “homogeneity in the purchasing power gap.” It asserts that the super-rich, regardless of ethnicity, has about 18 to 20 times more purchasing power.

14. Purchasing power has a graver ramification from the standpoint of economic wellbeing. This has to do with the reality that a person who enjoys a high income is not necessarily guaranteed a better quality of life. Neither does the effort to improve the quality of life through high income mean much if the cost of living rises rampantly. Again, an observation by Anas is very illuminating here. He contends that a graduate who entered the job market for the first time, say, in 1978 on a monthly salary of RM1,000 could afford a lower-end car of RM12,400 or 12 months' salary and take out a mortgage, perhaps, on a RM62,000 house in a fairly upscale Kuala Lumpur suburb. Today, a fresh entrant into the labour market on a monthly salary of RM2,500, which is two and half times higher than his earlier counterpart, would find a roughly similar car costing him RM178,000, roughly 71 months of his salary. A house outside the Greater Kelang Valley area, in Nilai for example, would set him back by RM350,000. This situation could get worse in all probability.

15. Ladies and gentlemen, the challenge before us is to mitigate the socio-political issues and problems to a minimum. This will ensure that they do not become a part of our political culture

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and, by extension, our way of life. We must have the will to stop patronage and cronyism. In this way rent-seekers would be cut off. But herein lies the problem. Political leaders are loath to upsetting the apple cart and disturb their cosy symbiosis with rent-seeking cronies. More often than not, these are the people whom they rely upon for political funds in their effort to continue to latch on to power.

16. What then could be done given this near-checkmate type of a situation? I say pressure must be brought to bear and it must be made known that we will not tolerate any more politics that is less than ethical. We must clearly and loudly make it known that politics must be practised with a high level of integrity. No, politics is not dirty but its practitioners, more often than not, are. In the longer run and in order to ensure that ethical politics of impeccable integrity is practised, we must overhaul our education system. We need to shift our education paradigm from a system that emphasises regurgitating what is learnt by rote to amass distinctions to one that puts a premium on logical and critical thinking in which source as well as general reading is a major activity in providing the primary material. We must revisit our educational philosophy in order that we may give equal importance to classroom and off-classroom activities in educating the young Malaysian into a potential leader material for the public or private domains. Of course, this is a huge and important subject that needs proper addressing at, perhaps, another forum.

17. Ladies and gentlemen, in the last several minutes I have shared with you my thoughts on the subjects addressed by Anas in his book. I hope it has generated enough interest to trigger off your critical thoughts on the subjects or other related subjects. In the process it is hoped that some of you will go a step further to put pen to paper as Anas had done. On that note, I take this opportunity to congratulate the author for making the book available to the public which I have much pleasure in introducing. Thank you and I wish you a pleasant day ahead.

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OFFICIATING THE LAUNCHING OF THE BOOK "RICH MALAYSIA, POOR MALAYSIANS" BY ANAS ALAM FAIZLI

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On Thursday, 3.4.14 At 8.00 P.M. at Sultan Sulaiman Club, Kg. Baru, Kuala Lumpur